

# OPEN MEETING



0000158381

## MEMORANDUM

TO: THE COMMISSION

Arizona Corporation Commission

**DOCKETED**

FROM: Utilities Division

DEC 02 2014

DATE: December 1, 2014

DOCKETED BY

RE: IN THE MATTER OF THE APPLICATION OF JOHNSON UTILITIES LLC FOR AN INCREASE IN ITS WATER AND WASTEWATER RATES FOR CUSTOMERS WITHIN PINAL COUNTY, ARIZONA.  
(DOCKET NO. WS-02987A-08-0180)

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ARIZONA CORPORATION COMMISSION  
DOCKET CONTROL

SUBJECT: Proposed CAGRD adjustor fees.

**ORIGINAL**

### I. Introduction

On October 27, 2014, pursuant to Decision No. 71854 (August 24, 2010), and as modified by Decision No. 73284 (July 30, 2012) and Decision No. 74701 (August 21, 2014), Johnson Utilities L.L.C. ("Johnson" or "Company") filed with the Arizona Corporation Commission ("Commission") the Company's proposed Central Arizona Groundwater Replenishment District ("CAGRD") adjustor fees.

Decision No. 71854 authorized the Company to implement an adjustor mechanism, subject to certain conditions, to recover the costs paid to the CAGRD for replenishment of groundwater. The conditions, as modified by Decision No. 73284, require the Company to submit, by October 25 of each year for Commission consideration, the proposed CAGRD fees for the next twelve-month period (along with documentation from the relevant state agencies to support the calculations), to apply to all water sold after December 1.<sup>1</sup> The Company made the instant filing on October 27, 2014, requesting the adjustor reset for usage billed in 2015.

### II. Background

The CAGRD was established by the Arizona Legislature to serve as a groundwater replenishment entity for its members, and it provides a mechanism for designated water supply providers such as Johnson to demonstrate a 100-year water supply. Members pay the CAGRD to replenish groundwater pumped by the member that exceeds specified pumping limits. The CAGRD is recognized as an important tool in Arizona's groundwater conservation efforts.

### III. Calculation of the CAGRD Adjustor Fees

Decision No. 71854 specified nine conditions regarding the CAGRD adjustor. Condition No. 6 ordered that the adjustor fees be calculated as follows: "The total CAGRD fees paid by the Company for the most current year . . . shall be divided by the gallons sold by the Company in that year to determine a CAGRD adjustor fee per 1,000 gallons."<sup>2</sup>

<sup>1</sup> Decision No. 73284, page 3, lines 2-8.

<sup>2</sup> Decision No. 71854, page 38, lines 22-26.

Condition Nos. 2 and 3 ordered that the Company “place all CAGR D monies collected from customers in a separate, interest bearing account,” withdrawals to be made only to pay the annual CAGR D fee due on October 15 of each year.<sup>3</sup> Decision No. 74701 revised Decision No. 71854 in regard to the segregation of CAGR D funds: “In the event of a shortfall, the Company shall only reimburse itself by withdrawing each month from the CAGR D Account an amount not to exceed 1/12<sup>th</sup> of the shortfall advanced by the Company until the full amount of any advance has been returned to the Company.”<sup>4</sup>

Although Decision No. 71854 did not contain an explicit provision for a true-up, the parties were in agreement that such an annual true-up would occur at the time of the adjustor reset each year. This understanding was confirmed by the Commission’s provision for a true-up in Decision No. 72634.<sup>5</sup>

#### **Pinal AMA**

On October 27, 2014, Johnson filed for the reset of CAGR D adjustor fees for both the Phoenix AMA and the Pinal AMA. On November 24, 2014, the Company acknowledged that the 2013 CAGR D invoice for the Pinal AMA has been revised. The Company indicated that it intends to recalculate its proposed adjustor fee for the Pinal AMA and submit that portion of its application at a later date. Staff will need to assess the revised information before making a specific recommendation related to the revised Pinal CAGR D rate.

#### **Phoenix AMA**

The Company proposes a rate of \$1.61 per thousand gallons for its Phoenix AMA. Staff has reviewed the Company’s proposed calculations and the supporting documentation submitted with its request. Staff agrees with the methodology employed by the Company to calculate the true-up and the proposed adjustor rate as discussed below.

#### True-up

The 2012 CAGR D invoice for the Phoenix AMA annual replenishment assessment was \$3,785,764.72. The Company reports that collections and interest as of September 30, 2014, total \$4,199,332.54.<sup>6</sup>

This true-up calculation indicates an over-collection of approximately \$189,657.47 as follows:

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<sup>3</sup> Decision No. 71854, page 38, lines 12-16.

<sup>4</sup> Decision No. 74701, page 2, lines 14 – 16.

<sup>5</sup> Decision No. 72634, page 4, starting on line 19 and continuing through page 5, line 10.

<sup>6</sup> Company’s application dated October 27, 2014.

THE COMMISSION

December 1, 2014

Page 3

a.	2011 under-collection of CAGRD invoice	\$ 223,910.35
b.	2012 CAGRD invoice	3,785,764.72
c.	Less: Collections and interest through September 2014	<u>4,199,332.54</u>
d.	2012 CAGRD over-collection [A+B-C]	\$ <u>(189,657.47)</u>

Adjustor Fee

The 2013 CAGRD invoice for Johnson's Phoenix AMA totals \$4,176,509.30. The Company's 2013 annual report as submitted to the Arizona Department of Water Resources ("ADWR") indicates annual water sales (in 1,000 gallons) of 2,478,226.

Staff's calculation of the new CAGRD adjustor fee is shown below. The fee is \$1.61.

a.	2013 CAGRD invoice	\$ 4,176,509.30
b.	Less over-collection from 2012	<u>(189,657.47)</u>
c.	Amount to be recovered [A+B]	3,986,851.83
d.	Total 1,000 gallons sold in 2012	<u>2,478,226</u>
e.	Charge per 1,000 gallons [C ÷ D]	\$ <u>1.61</u>

**VI. Conclusions and Recommendations**

Staff concludes that the Company has duly filed a sufficient request to revise the CAGRD adjustor fee of the Phoenix AMA, as required by Decision No. 73284 and modified by Decision No. 74701.

Staff recommends approval of the CAGRD adjustor fee for the Phoenix AMA as described herein.

Staff recommends that the Company file, within 7 days of a Decision in this matter, a Phoenix AMA CAGRD adjustor fee tariff consistent with the rates approved herein.

Staff recommends that the Company notify its customers of the CAGRD adjustor fee tariff approved herein in the first bill in which this fee appears.

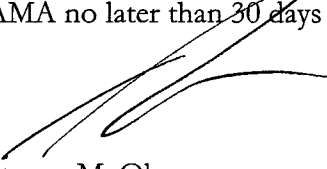
Staff recommends that the CAGRD adjustor fees authorized herein become effective for all water sold after December 1, 2014.

THE COMMISSION

December 1, 2014

Page 4

Staff recommends that the Company apply for a reset of the CAGR<sub>D</sub> adjustor for the Pinal AMA no later than 30 days from the effective date of the Commission's order in this case.



Steven M. Olea  
Director  
Utilities Division

SMO:JK:sms\RRM

Originator: Jorn Keller

1                                **BEFORE THE ARIZONA CORPORATION COMMISSION**

2        BOB STUMP

          Chairman

3        GARY PIERCE

          Commissioner

4        BRENDA BURNS

          Commissioner

5        BOB BURNS

          Commissioner

6        SUSAN BITTER SMITH

          Commissioner

7  
8        IN THE MATTER OF THE APPLICATION  
9        OF JOHNSON UTILITIES LLC FOR AN  
10       INCREASE IN ITS WATER AND  
11       WASTEWATER RATES FOR CUSTOMERS  
         WITHIN PINAL COUNTY, ARIZONA, RE  
         CAGRD ADJUSTOR FEES

DOCKET NO. WS-02987A-08-0180

DECISION NO. \_\_\_\_\_

ORDER

12  
13       Open Meeting  
14       December 11 and 12, 2014  
         Phoenix, Arizona

15       BY THE COMMISSION:

16                                FINDINGS OF FACT

17        Introduction

18                1.    On October 27, 2014, pursuant to Decision No. 71854 (August 24, 2010), and as  
19        modified by Decision No. 73284 (July 30, 2012) and Decision No. 74701 (August 21, 2014), Johnson  
20        Utilities L.L.C. ("Johnson" or "Company") filed with the Arizona Corporation Commission  
21        ("Commission") the Company's proposed Central Arizona Groundwater Replenishment District  
22        ("CAGRD") adjustor fees.

23                2.    Decision No. 71854 authorized the Company to implement an adjustor mechanism,  
24        subject to certain conditions, to recover the costs paid to the CAGRD for replenishment of excess  
25        groundwater. The conditions, as modified by Decision No. 73284, require the Company to submit, by  
26        October 25 of each year, for Commission consideration, its proposed CAGRD fees for the next  
27        twelve-month period (along with documentation from the relevant state agencies to support the

28        ...

calculations), to apply to all water sold after December 1.<sup>1</sup> Accordingly, the Company made the instant filing.

### Background

3. The CAGR D was established by the Arizona Legislature to serve as a groundwater replenishment entity for its members, and it provides a mechanism for designated water supply providers such as Johnson to demonstrate a 100-year water supply. Members pay the CAGR D to replenish groundwater pumped by the member that exceeds the specified pumping limits. The CAGR D is recognized as an important tool in Arizona's groundwater conservation efforts.

### Calculation of the CAGR D Adjustor Fees

4. Decision No. 71854 specified nine conditions regarding the CAGR D adjustor. Condition No. 6 ordered that the adjustor fees be calculated as follows: "The total CAGR D fees paid by the Company for the most current year . . . shall be divided by the gallons sold by the Company in that year to determine a CAGR D adjustor fee per 1,000 gallons."<sup>2</sup>

5. Condition Nos. 2 and 3 ordered that the Company "place all CAGR D monies collected from customers in a separate, interest bearing account," only to be withdrawn for the annual payment to the CAGR D, due on October 15 of each year.<sup>3</sup> Decision No. 74701 revised Decision No. 71854 in regard to the segregation of CAGR D funds: "In the event of a shortfall, the Company shall only reimburse itself by withdrawing each month from the CAGR D Account (sic) an amount not to exceed 1/12<sup>th</sup> of the shortfall advanced by the Company until the full amount of any advance has been returned to the Company."<sup>4</sup>

6. In addition, although the order did not contain an explicit provision for a true-up, the parties were in agreement that such an annual true-up would occur at the time of the adjustor reset

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<sup>1</sup> Decision No. 73284, page 3, lines 2 - 8.

<sup>2</sup> Decision No. 71854, page 38, lines 22 - 26.

<sup>3</sup> Decision No. 71854, page 38, lines 12 - 16.

<sup>4</sup> Decision No. 74701, page 2, lines 14 - 16.

each year. This understanding was confirmed by the Commission's provision for a true-up in Decision No. 72634.<sup>5</sup>

**Pinal AMA**

7. On October 27, 2014, Johnson filed for the reset of CAGR D adjustor fees for both the Phoenix AMA and the Pinal AMA. On November 24, 2014, the Company acknowledged that the 2013 CAGR D invoice for the Pinal AMA has been revised. The Company indicated that it intends to recalculate its proposed adjustor fee for the Pinal AMA and submit that portion of its application at a later date. Staff will need to assess the revised information before making a specific recommendation related to the revised Pinal CAGR D rate.

**Phoenix AMA**

**True-up**

8. The 2012 CAGR D invoice for the Phoenix AMA replenishment assessment was \$3,785,764.72. The Company reports that collections and interest as of September 30, 2014, total \$4,199,332.54.<sup>6</sup>

9. This true-up calculation indicates an under-collection of approximately \$189,657.47 as follows:

a.	2011 under-collection of CAGR D fee	\$ 223,910.35
b.	2012 CAGR D invoice	\$3,785,765.72
c.	Less: Collections and interest through September, 2014	<u>\$4,199,332.54</u>
d.	2012 CAGR D over-collection [A+B-C]	\$ <u>(189,657.47)</u>

<sup>5</sup> Decision No. 72634, page 4, line 19 through page 5, line 10.

<sup>6</sup> Company's application dated October 27, 2014.

**Adjustor Fee**

10. The 2013 CAGR D invoice for Johnson's Phoenix AMA totals \$4,176,509.30. The Company's 2013 annual report as submitted to the Arizona Department of Water Resources ("ADWR") indicates annual water sales (in 1,000 gallons) of 2,478,226.

11. Staff's calculation of the new CAGR D adjustor fee is shown below. The fee is \$1.61.

a.	2013 CAGR D invoice	\$ 4,176,509.30
b.	Less 2012 over-collection	\$ (189,657.47)
c.	Amount to be recovered	\$ 3,986,851.83
	[A+B]	
d.	Total 1,000 gallons sold in 2013	<u>2,478,226</u>
e.	Charge per 1,000 gallons [C÷D]	\$ <u>1.61</u>

**Conclusions and Recommendations**

12. Staff concludes that the Company has duly filed a sufficient request to revise the CAGR D adjustor fee, as required by Decision No. 73284.

13. Staff recommends approval of the CAGR D adjustor fee for the Phoenix AMA as described herein.

14. Staff recommends that the Company file, within 7 days of a Decision in this matter, the Phoenix AMA CAGR D adjustor fee tariff consistent with the rate approved herein.

15. Staff recommends that the Company notify its customers of the Phoenix AMA CAGR D adjustor fee tariff approved herein in the first bill in which this fee appears.

16. Staff recommends that the CAGR D adjustor fee authorized herein become effective for all billings after December 1, 2013.

17. Staff recommends that the Company apply for a reset of the CAGR D adjustor fees for the Pinal AMA within 30 days of the effective date of this order.

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18. We find that Staff's recommendations are reasonable and should be adopted.

CONCLUSIONS OF LAW

1. The Company is a public water service corporation within the meaning of Article XV of the Arizona Constitution and A.R.S. §§ 40-250 and 40-252.

2. The Commission has jurisdiction over the Company and the subject matter of the application.

3. Approval of the proposed CAGR D adjustor fee is consistent with the Commission's authority under the Arizona Constitution, Arizona ratemaking statutes, and applicable case law.

4. It is in the public interest to approve the Company's request for implementation of the CAGR D adjustor fee as discussed herein.

ORDER

IT IS THEREFORE ORDERED that the application by Johnson Utilities L.L.C. to implement its new CAGR D adjustor fee of \$1.61 per 1,000 gallons for the Phoenix AMA is approved for all customer billings for water sold after December 1, 2014.

IT IS FURTHER ORDERED that Johnson Utilities L.L.C. shall file for a reset of the adjustor fee for the Pinal AMA within 30 days of the effective date of this order.

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1 IT IS FURTHER ORDERED that Johnson Utilities L.L.C. docket with the Commission as a  
2 compliance matter, within seven (7) days of the effective date of this Decision, Phoenix AMA  
3 CAGRD adjustor fee tariff consistent with the rate approved herein.

4 IT IS FURTHER ORDERED that Johnson Utilities L.L.C. shall notify its customers of the  
5 Phoenix AMA CAGRD adjustor fee approved herein in the first bill in which this fee appears.

6 IT IS FURTHER ORDERED that this Decision shall become effective immediately.

7  
8 **BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION**

9  
10  
11 CHAIRMAN

COMMISSIONER

12  
13 COMMISSIONER

COMMISSIONER

COMMISSIONER

14  
15 IN WITNESS WHEREOF, I, JODI JERICH, Executive Director of  
16 the Arizona Corporation Commission, have hereunto, set my hand and  
17 caused the official seal of this Commission to be affixed at the Capitol,  
18 in the City of Phoenix, this \_\_\_\_\_ day of  
19 \_\_\_\_\_, 2014.

20 JODI JERICH  
21 EXECUTIVE DIRECTOR

22 DISSENT: \_\_\_\_\_

23 DISSENT: \_\_\_\_\_

24  
25 SMO:JK:sms\RRM

26  
27  
28  
Decision No. \_\_\_\_\_

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